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NOTE

The term 'Britain' is used informally in the *Survey of Current Affairs* to mean the United Kingdom of Great Britain and Northern Ireland. 'Great Britain' comprises England, Wales and Scotland.

The Civil List

The amounts payable to members of the Royal Family under the Civil List Acts to finance expenditure incurred in carrying out their official duties in 1988 were announced in March.

The proposed sums (see below) were announced by the Chancellor of the Exchequer, Mr Nigel Lawson, on 15 March (*Hansard*, Vol 129, No 115, written answers, col 492). They represent an underlying increase of 4 per cent over 1987 (figures for which are given in brackets), although the actual increase is 4·6 per cent owing to the additional payment made to the Duke of York.

	1988 £
The Queen's Civil List	4,500,000 (4,326,100)
Queen Elizabeth, the Queen Mother	390,300 (375,300)
The Duke of Edinburgh	217,700 (209,300)
The Princess Royal	135,600 (130,400)
The Duke of York	86,500 (50,000)
Prince Edward	20,000 (20,000)
Princess Margaret	132,100 (127,000)
Princess Alice, Duchess of Gloucester	53,500 (51,400)
The Duke of Gloucester	106,300 (102,200)
The Duke of Kent	143,500 (138,000)
Princess Alexandra, the Hon Mrs Angus Ogilvy	136,800 (131,500)
Total	5,922,300 (5,661,200)
Refunded by the Queen	386,600 (371,700)
	5,535,700 (5,289,500)

The sum refunded by the Queen to the Consolidated Fund is equivalent to the payments to the Duke of Gloucester, the Duke of Kent and Princess Alexandra.

No special provision is made for the Prince of Wales, who is entitled to net revenues from the Duchy of Cornwall although he surrenders a quarter of these to the Exchequer.

Recent Legislation

The public Acts of Parliament passed between December 1987 and 31 March 1988 when the Easter adjournment started are listed below. One Act was introduced by a private member; this is indicated by an asterisk.

Arms Control and Disarmament (Privileges and Immunities) Act 1988. Confers privileges and immunities on observers, inspectors and auxiliary personnel exercising functions under international agreements or arrangements for furthering arms control or disarmament. Royal Assent: 9.2.88. Ch 2, ISBN 0 10 540288 5, HMSO, 45p.

Consolidated Fund Act 1988. Gives parliamentary authority for sums to be issued out of the Consolidated Fund to meet the Government's expenditure requirements. Royal Assent: 15.3.88. Ch 6, ISBN 0 10 540688 0, HMSO, 45p.

Income and Corporation Taxes Act 1988. Consolidates certain enactments relating to income tax and corporation tax. Royal Assent: 9.2.88. Ch 1, ISBN 0 10 540188 9, HMSO, £35.

**Land Registration Act 1988.* Amends the Land Registration Act 1925 to provide for public inspection of the register of titles to land. Royal Assent: 15.3.88. Ch 3, ISBN 0 10 540388 1, HMSO, 85p.

Local Government Act 1988 (see pp 225-7, 1987). Amendments were made during the passage of the Bill to prohibit local authorities from intentionally promoting homosexuality and from promoting the teaching of its acceptability as a pretended family relationship; and to give a new 'stop' power to local authority auditors to prevent councils from incurring unlawful expenditure or loss. Royal Assent: 24.3.88. Ch 9, ISBN 0 10 540988 X, HMSO, £5·50.

Multilateral Investment Guarantee Agency Act 1988 (see p 406, 1987). Royal Assent: 24.3.88. Ch 8, ISBN 0 10 540888 3, HMSO, £2·20.

Norfolk and Suffolk Broads Act 1988. Provides for the establishment of a new statutory authority, to be known as the Broads Authority, to manage and conserve the Norfolk and Suffolk Broads, and for the making of grants to the Authority by the Secretary of State. Gives the Broads a status equivalent to that of a national park. Royal Assent: 15.3.88. Ch 4, ISBN 0 10 540488 8, HMSO, £5·50.

Social Security Act 1988 (see pp 421-2, 1987). Royal Assent: 15.3.88. Ch 7, ISBN 0 10 540788 7, HMSO, £3·60.

Welsh Development Agency Act 1988. Raises the financial limit imposed by the Welsh Development Agency Act 1975 on general external borrowing by the Agency. Royal Assent: 15.3.88. Ch 5, ISBN 0 10 540588 4, HMSO, 45p.

Northern Ireland

A review of the policing of certain funerals in Northern Ireland is being undertaken following recent outrages which have been condemned by the British and Irish Governments. A meeting of the Anglo-Irish Intergovernmental Conference took place on 25 March.

Background

On 16 March, at the funerals of the three Provisional IRA terrorists killed in Gibraltar, a Loyalist gunman (see pp 90-1) attacked the crowd killing three people and injuring many more; a man was subsequently arrested and charged.

The funeral of two of those killed at the cemetery took place on Saturday 19 March; following the funeral service, the cortege moved off towards Milltown Cemetery, but at that point a civilian car containing two off-duty British soldiers attempted to reverse away from the cortege. Its way was blocked by taxis accompanying the funeral and a number of people tried to pull out the two occupants. The driver of the car fired one pistol shot in the air and the crowd then resumed their onslaught on the car, removing both occupants, who were subsequently assaulted and stripped, thrown over a wall and bundled into a black taxi which took them to a nearby piece of wasteland, where they were shot dead by the Provisional IRA. Both victims were corporals in the Royal Corps of Signals. Five people have been charged in connection with the incident.

Before the funerals of the three killed in Gilbraltar, the Roman Catholic Church, local politicians and community leaders appealed for the occasion to be orderly and without violence. Against this background, and in the trust that neither the families nor the community wished to see any exploitation of the funerals for paramilitary purposes, the police avoided intervention in a private and solemn occasion and a similar policy was adopted regarding the 19 March funeral.

Parliamentary Statement

Reporting to the House of Commons on 21 March (*Hansard*, Vol 130, No 119, cols 21-36), the Secretary of State for Northern Ireland, Mr Tom King, said that it was unclear why the two soldiers came to be in the vicinity of the funeral. Their route was not an approved one for soldiers not on operational duty, and they were not involved in any way with surveillance or other duties connected with the funeral. Whatever the reason nothing could justify 'the utterly appalling carnage that then occurred and which resulted in their deaths'. Moreover, although they had both had loaded personal protection pistols, they had shown incredible restraint in using them only to fire a warning shot in the air.

On the policing of funerals Mr King said that funerals and large processions had been used quite unscrupulously by paramilitary organisations for propaganda purposes. In determining the most appropriate method of policing them, the Chief Constable of the Royal Ulster Constabulary (RUC) took account of all the relevant circumstances. A prime consideration had to be that funerals should be conducted within the law, without paramilitary display and without other elements exploiting the presence of the police to provoke violence and disorder. The Government fully supported the Chief Constable's decisions on the funerals (see above). The two incidents that subsequently occurred, however, were wholly unacceptable and required immediate review in regard to policing of future funerals. The Chief Constable was undertaking this as a matter of urgency.

Stressing the need to break the cycle of violence and retaliation, Mr King said that every person with a spark of human decency had to give full support to the fight against terrorism from whichever quarter it came. In order to help the community to do this, the present confidential telephone system would be supplemented with a single and easily memorable free phone number usable right across Northern Ireland.

Intergovernmental Conference

The Anglo-Irish Intergovernmental Conference met in London on 25 March. Britain was represented by Mr King and by the Minister of State for Northern Ireland, Mr John Stanley. The Irish foreign minister, Mr Brian Lenihan, and the Irish Minister of Justice, Mr Gerard Collins, represented the Irish Republic. The Chief Constable of the RUC and the Commissioner of the Garda Siochana were present during the discussions on security. Under the Anglo-Irish Agreement of November 1985 (see pp 367-74, 1985), the Conference is a forum for promoting cross-border co-operation, particularly on security; it also provides the Irish Government with an opportunity to put forward views and proposals affecting Northern Ireland. The Conference, however, has no executive role or decision-taking powers and each Government retains full responsibility for decisions about the administration of government within its own jurisdiction.

In a statement issued at the end of the talks, both Governments condemned recent violent outrages that had done so much to increase tension in Northern Ireland and appealed to both communities 'to

repudiate those in their midst who sought to promote the spiral of violence and to do all in their power to help bring this violence to an end'. The Conference agreed that these events underlined the need for a programme of special measures to improve relations between the security forces and the community in Northern Ireland and to build confidence in the administration of justice. It therefore decided that officials of both governments should draw up a new programme of work on these issues. In this context the Irish side emphasised its concerns about the Stalker-Sampson report and other related issues (see pp 91-3); it also noted the review of policing arrangements at funerals and stressed the continuing importance of ensuring that security at these and other public occasions should be organised in a sensitive manner.

Shorter Notes

BAIL

Under new provisions added to the Criminal Justice Bill (see pp 39-40) the Government is seeking to reaffirm that courts must consider bail any time that an accused person is brought before it; a court, however, would not be required to re-hear questions of fact or argument upon which it had previously made a ruling.

The Government is also proposing that a court must give its reasons for granting bail to a person charged with murder, attempted murder, manslaughter, rape or attempted rape where the prosecution opposes bail. Under the present law the court is required to state its reasons when refusing bail but not when it grants it.

Commenting on the proposals, the Minister of State at the Home Office, Mr John Patten, said on 16 March that it was wrong to remand unconvicted people in custody except when strictly necessary for the protection of the public or in the interests of justice. The Government recognised, however, the damage that could be done when a person committed a very serious offence such as murder or rape when on bail. Although this happened only rarely, it was right that the courts should weigh the risks very carefully before deciding whether or not to grant bail to an alleged killer or rapist. 'Where these most serious offences are involved the court should be required to state its reasons when it decides to grant bail.'

The Bail Act 1976 establishes a general entitlement to bail subject to certain conditions. The court can refuse bail to a defendant charged with an imprisonable offence if there are substantial grounds for believing that the defendant would fail to surrender to custody, commit an offence while on bail, or interfere with witnesses or otherwise obstruct the course of justice.

Source: Home Office press notice, 16 March 1988.

SERIOUS FRAUD

The new Serious Fraud Office, established under the Criminal Justice Act 1987 (see p 190, 1987), started work on 6 April. It has wide powers to investigate and prosecute serious or complex fraud in England, Wales and Northen Ireland and will concentrate on those where the facts and/or the law are very complex, the sums of money at risk are substantial, or there is great public interest or concern.

The objectives of the Office are to speed up investigations and, where appropriate, the institution of criminal proceedings; develop expertise in such areas as Stock Exchange, computer and insurance frauds; present evidence at fraud trials in ways intelligible to the average member of a jury; and increase the proportion of successful prosecutions. It has powers to investigate the affairs of any person; serve a written notice requiring a person believed to have relevant information to answer questions and/or produce documents; take copies of documents and seek explanations; and apply to a magistrate for a warrant authorising the police to enter and search premises.

The Office has inter-disciplinary teams of lawyers, accountants and others with expertise in fraud cases who work closely with the police and other investigative authorities. Police officers from the Metropolitan and City of London fraud squads are located within the Office to work with the teams.

A government department, the Office is accountable through its Director to the Attorney General and to Parliament.

Source: Serious Fraud Office press notice, 5 April 1988.

Shorter Note

FALKLAND ISLANDS

A military exercise involving fewer than 1,000 men and only a small number of aircraft took place between 7 and 31 March to test Britain's ability to reinforce rapidly its garrison on the Falkland Islands.

In an adjournment debate in the House of Commons on 31 March, the Parliamentary Under-Secretary of State for Foreign and Commonwealth Affairs, Mr Tim Eggar, said that the Government was pledged to defend the Islands. Britain had to have the ability to reinforce at short notice the garrison which had been halved since the opening in 1985 of Mount Pleasant Airport, which allowed wide-bodied transport aircraft to land in the Islands. By its very nature the exercise contributed to an overall lowering of tension in the region since it enabled a minimum permanent garrison to be stationed on the Islands. This major reduction in force levels had only been possible because of the knowledge that Britain could and would be able to fly in reinforcements, but this had to be tested regularly. 'We hope never to have to reinforce the garrison in earnest, but that is an eventuality that no responsible Government can lightly leave to chance.' The exercise had been completed by 31 March, the garrison had now returned to its former size and there had been no permanent increase in force levels. The exercise had been a success and had shown that Britain would honour its commitments to the Falkland Islanders.

Noting that the Argentine Government had called for the cancellation of the exercise and had sought to apply pressure in international forums, Mr Eggar pointed out that this reponse to a purely routine and defensive exercise had been quite unjustified. So long as Argentina maintained its claim to the Islands (see p 404, 1987), Britain had to retain a capacity to deal with the unexpected and would be rightly criticised if it shirked that clear national responsibility.

Source: *Hansard*, Vol 130, No 127, cols 1331-7.

The Budget

A radical reform of income tax – including a reduction in the basic rate from 27 to 25 per cent, the abolition of all higher rates above 40 per cent and the introduction (in 1990) of a new system of independent taxation for husband and wife – is a central theme of the Budget, presented by the Chancellor of the Exchequer, Mr Nigel Lawson, on 15 March. Capital gains tax is also to be reformed. Continuing economic growth is forecast, with low inflation and falling unemployment, and firm control over government borrowing is to be maintained.

The main Budget proposals are outlined below. They are followed by a fuller account of the Chancellor's statement. Tables are taken from the *Financial Statement and Budget Report 1988-89*,[1] published on Budget day.

SUMMARY OF PROPOSALS

Taxation

Income Tax

Basic rate cut from 27 to 25 per cent. All higher rates above 40 per cent abolished.

Main allowances and threshold for the 40 per cent rate raised by twice the rate of inflation.

From 1 August, mortgage interest relief to be applied to the residence rather than the borrower.

From 6 April 1990, introduction of a new system of independent taxation for husband and wife.

Scale tax charges for private use of company cars to be doubled.

Corporation Tax

Small companies' rate lowered from 27 to 25 per cent.

Excise Duties

Duties on alcoholic drinks, cigarettes, leaded petrol and derv increased. No change in the duty on unleaded petrol.

Value Added Tax

Registration threshold raised from £21,300 to £22,100.

Capital Gains Tax

Taxation of inflationary gains eliminated by moving forward the base date for calculation of gains from 6 April 1965 to 31 March 1982.

Reduction in annual exempt amount from £6,600 to £5,000 for individuals and from £3,300 to £2,500 for most trusts.

Individuals' gains to be taxed at their income tax rate.

Inheritance Tax

Threshold increased from £90,000 to £110,000.

Replacement of the existing four rates by a single rate of 40 per cent.

Payroll Giving Scheme

Doubling of the limit on donations to £240 a year.

Personal Equity Plans

Limit raised from £2,400 to £3,000 a year.

Monetary Policy

Continuation of the medium-term financial strategy, with short-term interest rates remaining the central instrument.

Target rate of growth for narrow money in 1988-89 of 1 to 5 per cent.

Public Borrowing

Public sector borrowing requirement (PSBR) in 1988-89 set at –£3,000 million, the same as the estimated outturn in 1987-88.

Economic Forecast

Gross domestic product (GDP) forecast to grow by 3 per cent in 1988 (the non-oil economy by 3·5 per cent) and fixed investment by 6·5 per cent. Annual rate of inflation of 4 per cent forecast by fourth quarter of 1988. Deficit on the current account of the balance of payments forecast at £4,000 million in 1988. Good prospects of a continuing fall in unemployment in the year ahead.

CHANCELLOR'S STATEMENT

Introducing his Budget in the House of Commons (*Hansard*, Vol 129, No 115, cols 995-1015), the Chancellor said that the British economy was stronger than at any time since 1945. He was now reaffirming the policies that were responsible for this performance. In particular, there would be no slackening in the Government's determination to defeat inflation.

Economic Background

Britain was about to enter its eighth successive year of sustained growth and the sixth year in which this had been combined with low inflation. The six years to 1987 represented the longest period of steady growth, at an annual average rate of 3 per cent, for

[1] *Financial Statement and Budget Report 1988-89*. HM Treasury. HMSO, £7·20. ISBN 0 10 236188 6.

Table 1
Growth of Money Supply and Money GDP

Percentage change during year

	1987-88	1988-89	1989-90	1990-91	1991-92
Narrow money – M0	5*	1-5†	1-5‡	0-4‡	0-4‡
Money GDP	9·75	7·5*	6·5§	6§	5·5§

*Forecast.
†Target range.
‡Illustrative range.
§Government's broad medium-term objective.

half a century. Whereas in the 1960s and 1970s Britain's growth rate had been the lowest of the major European economies, in the 1980s it had been the highest. In 1987 output had grown by nearly 4·5 per cent – slightly ahead of the rate of inflation – while unemployment had fallen substantially (see p 108). The British economy had been transformed. 'Prudent financial policies have given business and industry the confidence to expand, while supply side reforms have progressively removed the barriers to enterprise.' This transformation had been particularly marked in manufacturing; the outstanding performance here was based on a further large improvement in productivity, output per head in the 1980s having risen faster than in any other major industrialised country.

The current account of the balance of payments was estimated to have been in deficit by a little over £1,500 million in 1987 after seven successive years in surplus. However, this was well below the deficit forecast in the 1987 Budget (see p 130, 1987). Moreover, manufacturers had maintained their share of expanding world trade, which was 'the crucial test of competitiveness'.

Mr Lawson expected 1988 to be another year of healthy growth with inflation low and unemployment falling, although probably not as rapidly as in 1987. Output growth in 1988 was forecast at 3 per cent with non-oil output rising by 3·5 per cent. Business investment was forecast to grow particularly strongly – by 9 per cent. The annual rate of inflation by the end of 1988 was put at 4 per cent. With growth in Britain likely to continue to exceed that in most other major economies – particularly European – and with the oil surplus falling as North Sea production declined, the current account of the balance of payments was forecast to remain in deficit in 1988, by some £4,000 million – equal to less than 1 per cent of GDP. 'Given the strength of the economy in general, and of our public finances in particular, not to mention our massive net overseas assets, I foresee no difficulty in financing a temporary current account deficit of this scale', the Chancellor declared. However, the outlook both for exports and jobs would depend on employers keeping their costs – including pay – under firm control.

Given the continuation of Britain's present policies, the greatest risk was posed by a downturn in the world economy. The collapse in world stock markets in October 1987 (see pp 368-9, 1987) had acted as a warning. Success in reducing imbalances in the world economy depended on the adoption of the correct fiscal and monetary policies. But the necessary adjustments were much more likely to be achieved by the practice of greater exchange rate stability, as had been the case for well over two years. Britain would continue to play its part in this process.

Monetary Policy

The medium-term financial strategy (see p 113, 1980), now entering its ninth year, would continue to provide the framework for reducing the rate of growth of money GDP – and hence inflation – over the medium term. This would be achieved by the maintenance of firm monetary discipline, buttressed by a prudent fiscal stance.

The gradual eradication of inflation required a steady reduction in monetary growth over the medium term. While broad money (or liquidity) would continue to be taken into account, there would – as in the 1987 Budget – be no specific target. The target growth range for narrow money (M0)[1] in 1988-89 would be 1 to 5 per cent, as announced in the last Budget (see p 131, 1987).

Short-term interest rates remained 'the essential instrument of monetary policy'. These would continue to be set at levels necessary to ensure downward pressure on inflation.

With regard to exchange rates, Mr Lawson expressed the belief that most businessmen had welcomed the increased stability over the past year. It was important that they also accepted the financial discipline which this implied.

Public Sector Finances

One of the Government's main objectives when it took office was to bring down public borrowing. Now, in 1987-88, the Government was set to achieve a balanced budget – once regarded as 'the hallmark of good government' – for only the second time since the start of the 1950s. It had gone even further: the 1987-88 outturn was likely to be a budget surplus (or public sector debt repayment) of £3,000 million. A PSBR of £4,000 million in 1987-88 had been forecast in the 1987 Budget (see p 131, 1987). Some two-thirds of the borrowing shortfall was attributable to increased tax revenues from a buoyant economy and the other one-third was the result of lower than expected public expenditure, also because of economic buoyancy. Even without privatisation proceeds, the PSBR would still have been – at 0·5 per cent of GDP – the lowest in any year except one since the early 1950s.

Nevertheless, the Chancellor had announced in the November 1987 Autumn Statement (see p 364, 1987) increases in planned public expenditure in 1988-89 on, among other things, health, education and law and order.

[1]Notes and coin in circulation with the public and banks' holdings of cash and their operational balances at the Bank of England.

Table 2

Public Sector Borrowing

£'000 million

	Estimated outturn 1987-88	Plans 1988-89	1989-90	1990-91	1991-92
Public expenditure planning total	146	157	167	176	184
Gross debt interest	17	17	17	17	16
Other adjustments	8	9	9	9	9
General government expenditure	172	183	193	202	210
Taxes on incomes, expenditure and capital	132	141	150	158	165
National Insurance and other contributions	29	32	34	36	38
Interest and dividends	6	6	5	5	4
Other receipts	6	6	7	7	7
General government receipts	174	185	195	205	214
Fiscal adjustment from previous years*	–	–	–	3	4
Annual fiscal adjustment*	–	–	3	1	1
General government borrowing requirement	−2	−2	1	1	1
Market and overseas borrowing of public corporations	−1	−1	−1	−1	−1
Public sector borrowing requirement	−3	−3	0	0	0
As percentage of GDP	−0·75	−0·75	0	0	0

*Implies lower taxes or higher expenditure than assumed in totals for general government expenditure and receipts.
Note: Differences between totals and the sums of their component parts are due to rounding.

'A balanced budget is a valuable discipline for the medium term', Mr Lawson explained. 'It represents security for the present and an investment for the future. Having achieved it, I intended to stick to it ... henceforth a zero PSBR will be the norm.' However, for 1988-89, 'the path of prudence and caution' was to cater for a surplus of the same size as expected in 1987-88 – that is, a further public sector debt repayment of some £3,000 million. This meant that it would not be possible to reduce taxation as a proportion of GDP – the burden of taxation. However, in a growing economy, a constant burden of taxation implied a reduction in tax rates.

Tax Reform

The proposals for tax reform amounted to 'a substantial and coherent package which will be of increasing benefit to the taxpayer and the economy as a whole in the years to come'. The Chancellor had been guided by four basic principles: the need to reduce tax rates where they were clearly too high; the need to reduce or abolish unwarranted tax breaks; the need to simplify the tax system; and the need to remove some clear injustices.

Independent Taxation and Marriage

The present system for the taxation of married couples was 180 years old and treated the income of a married woman as if it belonged to her husband: this was no longer acceptable, Mr Lawson declared.

The reform now being proposed would give married women the same privacy and independence in their tax affairs as everyone else and would end the tax penalties on marriage.

From 6 April 1990 – the earliest practicable date – a new system would ensure independent taxation for a husband and wife on all income. All taxpayers, irrespective of sex or marital status, would be entitled to the same personal allowance against income from all sources. Married women would pay their own tax on the basis of their own income. In addition, there would be a married couple's allowance, equal to the present difference between the single and married allowances. This would go, in the first instance, to the husband so as to prevent a fall in his tax threshold. However, if he did not have a high enough income to use it in full, he would be able to transfer the unused portion to his wife, to set against her income. The tax system would thus continue to recognise marriage. Similarly, a husband and wife would be taxed independently on any capital gains by each being given an annual exemption instead of, as now, one between them.

Independent taxation would eliminate the most common tax penalty on marriage – the taxation of a married woman's income at her husband's highest rate. Two more penalties were also being abolished.

First, from 1 August, mortgage interest relief would be applied to the residence rather than, as now, the borrower, thus ending the system whereby an unmarried couple could obtain two sets of relief.

Secondly, from April 1989, the anomaly whereby an unmarried couple with children could claim two additional personal allowances (intended for single parents) would be ended: they would be restricted to one such allowance.

Business Taxation

Business entertainment of overseas customers would be made non-deductible for tax purposes.

From 1 July royalties for certain post-1982 oil and gas fields would be abolished. At the same time, the petroleum revenue tax oil allowance for these fields would be reduced.

Measures would be taken to remedy the situation whereby building societies faced a heavy tax charge if they became public limited companies.

Two changes were proposed to the tax arrangements for Lloyd's insurance market. The first concerned the switch in the tax treatment – announced in the 1987 Budget (see p 133, 1987) – of insurance syndicates as applied to Lloyd's Reinsurance to Close.[1] The effect would be to give relief from the 1987 legislation to people leaving syndicates and to simplify and make more equitable the treatment of those continuing their syndicate membership. The second would simplify the arrangements for the taxation of syndicate members.

The tax rules for companies wishing to locate overseas would be simplified.

Two major changes would be made to the Business Expansion Scheme (BES). First, it would be targeted more at smaller companies by reducing to £500,000 the total amount of investment in a company which would qualify for income tax relief. The Chancellor explained that companies seeking relatively large amounts of equity investment could have recourse to the expanding venture capital market (see p 24). However, the existing ceiling of £5 million would continue to apply for companies raising funds for ship chartering or for private rented housing (see below). Secondly, in order to encourage labour mobility, the BES would be extended, until the end of 1993, to companies specialising in the letting of residential property on the new assured tenancy basis (see pp 429-30, 1987).

Capital gains tax retirement relief – at present £125,000 – would be extended to £125,000 plus 50 per cent of gains between £125,000 and £500,000.

The registration threshold for value added tax would be raised from an annual turnover of £21,300 to one of £22,100 – the maximum permitted under European Community law.

Capital duty (introduced to comply with Community obligations when Britain joined in 1973) and unit trust investment duty would be ended. Abolition of the first would remove a tax on companies when formed or when increasing their capital; abolition of the second would reduce the costs of unit trusts and should benefit investors.

Covenants and Maintenance

New, non-charitable covenants would be taken out of the tax system so that people receiving covenants would no longer be liable to tax on them while those making covenants would no longer be eligible for tax relief on them.

For new maintenance arrangements, recipients would not be liable to tax. Relief to those making the payments would be restricted to payments to a separated or former spouse and would be limited to the difference between the single and married allowances.

In order to give further encouragement to charitable giving, the annual limit on donations under the payroll giving scheme (see p 125, 1986) would be doubled to £240.

[1]Lloyd's Reinsurance to Close is the payment of insurance premiums by the syndicate (in order to close a year of account) to the members who will assume the outstanding liabilities in the following year.

Taxes on Spending

Excise duties would be raised broadly in line with inflation, with some modest adjustments within the total.

The duty on cigarettes would be increased by an amount equivalent (including VAT) to 3-4p on the price of a packet of 20.

The duties on alcoholic drinks would be raised by amounts equivalent (including VAT) to 1p on the price of a pint of beer or cider, 4p on the price of a bottle of table wine and 6p on the price of a bottle of sparkling or fortified wine. The Chancellor pointed out that the duty structure was inhibiting sales of 'coolers' – mixtures of an alcoholic drink and a soft drink. Accordingly, there would be a reduction in the relevant rates of duty so as to encourage the young, in particular, to switch to drinks with a lower alcohol content. For the same reason, from 1 October, the minimum duty charge on beer would be abolished in order to encourage the promotion of low-strength beers.

Other duty increases would have the effect of raising the price (including VAT) of leaded petrol by 5-6p a gallon and that of derv by a little under 5p a gallon. In order to stimulate its sales, there would be no duty increase for unleaded petrol.

Taxes on Capital

Share ownership in Britain, where there were nearly 9 million shareholders, was taking root, Mr Lawson continued. He was now proposing to encourage it still further by raising the annual limit for personal equity plans from £2,400 to £3,000.

Inheritance tax would be simplified by replacing the existing four rates by a single rate of 40 per cent. The threshold would be increased from £90,000 to £110,000.

Turning to capital gains tax, the Chancellor said that, for gains arising up to 1982, the tax fell largely on purely paper profits resulting from the high inflation in the 1970s. The base date would therefore be brought forward from 6 April 1965 to 31 March 1982 so that only those gains accruing after the later date would be subject to tax. 'This Budget thus ends once and for all the injustice of taxing purely inflationary gains. This will benefit the economy by unlocking assets which have been virtually sterilised because of the penal tax that would have arisen on any sale.'

Mr Lawson explained that rebasing the tax so as to achieve a fully indexed system made it possible to bring the taxation of capital gains into line with that of income – appropriately, as there was little economic difference between them. Accordingly, indexed gains would be taxed at the taxpayer's income tax rate.

With gains arising up to 1982 having being removed from tax, the capital gains tax threshold would be reduced from £6,600 to £5,000 for individuals and from £3,300 to £2,500 for most trusts.

Income Tax

'The way to a strong economy is to boost incentives and enterprise. And that means, among other things, keeping income tax as low as possible', the Chancellor went on. However, as well as cutting taxes, it was necessary to consider whether the various allowances and reliefs were still justified.

Table 3

Consolidated Fund Revenue

£ million

	1987-88 forecast in 1987 Budget	1987-88 latest estimate	1988-89 forecast in 1988 Budget
Inland Revenue			
Income tax	39,900	41,400	42,100
Corporation tax*	15,000	15,600	19,800
Petroleum revenue tax†	1,680	2,330	1,180
Capital gains tax	1,300	1,350	1,950
Development land tax	20	25	10
Inheritance tax‡	1,100	1,070	1,000
Stamp duties	2,100	2,440	1,950
Total Inland Revenue	61,100	64,200	68,000
Customs and Excise			
Value added tax	23,300	24,100	26,200
Oil	7,800	7,800	8,400
Tobacco	4,800	4,800	5,000
Spirits, beer, wine, cider and perry	4,300	4,400	4,500
Betting and gaming	800	810	890
Car tax	1,100	1,150	1,260
Other excise duties	20	20	20
European Community own resources			
Customs duties, etc.	1,350	1,470	1,550
Agricultural levies	230	190	120
Total Customs and Excise	43,800	44,700	47,900
Vehicle excise duties§	2,600	2,700	2,770
Gas levy	490	500	420
Broadcast receiving licences	1,030	1,030	1,140
Interest and dividends	1,020	1,080	680
Other‖	7,600	9,100	7,300
Total Consolidated Fund ¶ revenue	117,500	123,200	128,200
Memorandum:			
Net of repayments	4,700	4,950	5,250

*Including advance corporation tax.
†Including advance payments.
‡Including estate duty and capital transfer tax.
§Including driving licence receipts.
‖Including the 10 per cent of own resources refunded by the European Community to meet the costs of collection, privatisation proceeds and oil royalties.
¶The Consolidated Fund is the account at the Bank of England into which tax receipts, excise duties and other revenues are paid.
Note: Differences between totals and the sums of their component parts are due to rounding.

The taxation of commercial woodlands would be ended. The present system, under which certain types of expenditure could be offset against tax while proceeds from the sale of trees were effectively tax free, could not be justified. Accordingly, the relevant income tax schedule – Schedule B – would be abolished.

Benefits in kind, Mr Lawson stated, constituted 'one of the biggest tax-induced distortions in the economy today'. It was right to move towards a system of lower taxes and fewer tax breaks of this type. Easily the most widespread benefit in kind was the company car, which was severely undertaxed. With this in mind, the scale charges for taxation for private use would be doubled.

Mortgage interest relief would be restricted to loans for house purchase; relief on new loans for home improvements would be ended.

Statutory indexation of income tax required that the main allowances and bands be raised by 3·7 per cent. However, the Chancellor proposed to raise them by twice as much. Therefore, the single allowance would rise from £2,425 to £2,605, the married allowance from £3,795 to £4,095, the additional personal allowance and the widow's bereavement allowance from £1,370 to £1,490, the age allowance for those aged 65 to 79 from £2,960 to £3,180 (single people) and from £4,675 to £5,035 (married people), the age allowance for those aged 80 and over from £3,070 to £3,310 (single people) and from £4,845 to £5,205 (married people), the income limit for the age allowance from £9,800 to £10,600 and the upper limit for taxable income at the basic rate from £17,900 to £19,300.

Three minor personal allowances – the housekeeper allowance, the dependent relative allowance and the son's or daughter's services allowance – which had all remained unchanged for over 20 years, would be abolished.

The basic rate of income tax would be cut from 27 to 25 per cent as would the small companies' rate of corporation tax. All higher rates above 40 per cent would be abolished. These changes would leave Britain with one of the simplest systems of income

tax in the world, consisting of a basic rate of 25 per cent and a single higher rate of 40 per cent. Since taking office, the Government had reduced the basic rate from 33 to 25 per cent. Its aim was to cut it further – to 20 per cent – as soon as was prudent. The Chancellor pointed out that excessive rates of income tax 'destroy enterprise, encourage avoidance, and drive talent to more hospitable shores overseas. As a result, so far from raising additional revenue, over time they actually raise less.' Accordingly, a reduction in the top rates could be expected to lead to a rise in revenue.

Conclusion

Commending the Budget to the House, Mr Lawson said that he had reaffirmed the policies that had brought Britain 'unprecedented economic strength', had reformed the taxation of marriage, had ended the unjust taxation of inflationary capital gains and had radically changed the structure of personal taxation. He had also balanced the Budget.

OPPOSITION VIEWS

Replying for the official Opposition on 16 March (*Hansard*, Vol 129, No 116, cols 1118-28), Mr John Smith said that the Chancellor's first priority should have been to safeguard the National Health Service. Having done that, he should have turned his attention to the creation of a stronger, more competitive and more balanced economy. The key was to convert short-term boom into long-term recovery. The worsening balance of payments would be a serious constraint on economic management in the years ahead; in this regard, North Sea oil revenue had not been put to best use. With the public finances in a healthy state, now was the time to invest in new technology, education, training, and research and development. Unfortunately, the Government preferred tax cuts for the rich to investment in these crucial areas.

Speaking on the same day for the Social and Liberal Democrats (*Hansard*, Vol 129, No 116, cols 1146-52), Mr Alan Beith said that the Budget was unjust in the way it favoured one section of society. He deplored the fact that Mr Lawson, having reduced income tax rates, had failed to lift the ceiling for National Insurance contributions or limit reliefs to the basic rate of income tax. Mr Beith also regretted the absence of increased investment in training and education.

Overseas Direct Investment by Companies

Net direct investment overseas by British companies was a record £11,600 million in 1986 – more than one-third higher than the 1985 level. The bulk of overseas investment continued to be in the developed countries with North America receiving over two-thirds of the total. Net direct investment in Britain by overseas companies was £4,200 million, almost the same as in 1985. Earnings from outward investment exceeded outgoings from inward investment by £2,400 million.

Provisional figures for 1987 (see Table 1) suggest that both outward and inward net direct investment[1] rose sharply, to £18,000 million and £6,000 million respectively. Earnings on outward investment rose by over 40 per cent and exceeded outgoings on inward investment by some £5,000 million. These findings are from the annual inquiry conducted by the Department of Trade and Industry, the main results of which were published in the 11 March issue of *British Business*. As data for 1987 are only provisional, the article deals with the more detailed analysis for 1986.

Outward Investment

Outward investment of £11,618 million in 1986 (see Table 1) was 34 per cent higher than in 1985. Investment by oil companies was 63 per cent below the 1985 level, the fall in oil prices having made the exploration of new fields unattractive, but this was more than offset by a 58 per cent increase in new investment by non-oil companies (industrial and commercial companies, insurance companies and banks). The latter accounted for 94 per cent of outward investment in 1986, compared with 80 per cent in 1985 and 60 per cent in 1984.

The increase in total outward investment reflected the growing number and size of overseas acquisitions by British companies. As a result, the net acquisition of overseas companies' share and loan capital accounted for 57 per cent of the total compared with 35 per cent in the previous year.

Unremitted profits of subsidiaries – that is, net profits less dividends paid to the British parent company – fell slightly in 1986 and accounted for a significantly lower proportion of total outward investment than in 1985: 38 per cent, compared with 55 per cent.

Outward investment in manufacturing increased sharply from £2,860 million in 1985 to £5,663 million in 1986, its share of total investment rising from one-third to nearly one-half.

Developed countries accounted for 91 per cent of outward investment. Investment in North America more than doubled to £7,853 million (see Table 2), about two-thirds of the total, with the United States alone receiving 58 per cent of the total. Investment in other member states of the European Community (21 per cent) fell slightly, while that in developing countries (9 per cent) fell by 25 per cent.

Earnings from Outward Investment

Net earnings from outward investment in 1986 amounted to £7,707 million, virtually the same as in 1985 (see Table 3). Within the total, however, earnings of non-oil companies rose by 28 per cent while those of oil companies, again reflecting the fall in oil prices, fell by 61 per cent. The most significant increases in earnings were in North America which accounted for a third of the total in 1986. Most other

[1]Direct investment overseas consists of long- and short-term funds given by an investor in one country to overseas affiliates (subsidiaries, associates and branches) in the form of share capital, loans, trade credit and retained profits. It is measured net, after deducting loans made by the affiliates to their direct investors. As this article is concerned only with net direct investment, the words 'net direct' are omitted from the text from now on.

Table 1

Net Overseas Direct Investment, Earnings and Outgoings

£ million

	1982	1983	1984	1985	1986	1987*
Outward direct investment overseas						
Investment						
Non-oil companies	2,122	3,460	3,657	6,901	10,922	14,495
Oil companies	1,968†	1,919†	2,272	1,935	719	3,291
Total excluding miscellaneous transactions	*na*	*na*	5,928	8,836	11,641	17,786
Miscellaneous transactions	*na*	*na*	190	−183	−23	−14
Total	4,080	5,379	6,118	8,653	11,618	17,772
Earnings						
Non-oil companies	2,971	4,012	4,895	5,205	6,650	7,710
Oil companies	1,771	2,189	2,829	2,462	951	3,003
Total excluding miscellaneous transactions	*na*	*na*	7,725	7,667	7,602	10,713
Miscellaneous transactions	*na*	*na*	106	102	99	105
Total	4,742	6,201	7,831	7,769	7,701	10,818
Inward direct investment in Britain						
Investment						
Non-oil companies	1,137	2,063	2,021	1,944	2,107	4,111
Oil companies	1,770	1,238	−2,267	2,179	1,970	1,678
Total excluding miscellaneous transactions	2,907	3,301	−246	4,123	4,077	5,789
Miscellaneous transactions	120	85	65	90	150	310
Total	3,027	3,386	−181	4,213	4,227	6,099
Outgoings						
Non-oil companies	2,081	2,308	2,965	3,459	3,117	3,282
Oil companies	2,578	2,950	3,306	3,997	2,210	2,496
Total excluding miscellaneous transactions	4,659	5,258	6,271	7,456	5,327	5,778
Miscellaneous transactions	8	8	8	8	8	8
Total	4,667	5,266	6,278	7,464	5,334	5,786
Earnings less outgoings	75	935	1,553	305	2,367	5,032

*Provisional.
†Including miscellaneous transactions.
na = not available.

member states of the European Community also produced higher earnings, in particular Belgium and Luxembourg, France, the Federal Republic of Germany and Spain.

Inward Investment

Inward investment in 1986 accounted for £4,227 million (see Table 1), only slightly higher than in 1985. Non-oil companies accounted for slightly more of the total than oil companies.

Inward investment from other members of the European Community rose by 77 per cent compared with 1985 (see Table 4), and accounted for 57 per cent of the 1986 total. Investment from the United States fell by 41 per cent to 31 per cent of the total (55 per cent in 1985). However, North America remained the largest source of inward investment for non-oil companies. Inward investment from the Netherlands rose by 84 per cent, strongly influenced by transactions in the oil sector.

Manufacturing accounted for 24 per cent of inward investment.

Outgoings from Inward Investment

Net outgoings from inward investment totalled £5,334 million in 1986 (see Table 5), 29 per cent lower than in the previous year. This was due mainly to a sharp fall in the earnings of oil companies.

Almost 55 per cent of outgoings went to the United States and 23 per cent to parent companies in other European Community member states (with the Netherlands accounting for two-thirds of this). Outgoings to Japan rose by 30 per cent. There was little change in outgoings to developing countries, these still accounting for a very small proportion of the total.

Table 2

Net British Direct Investment Overseas Analysed by Area*

£ million

	1982	1983	1984	1985	1986
Western Europe	**−5**	**−30**	**−87**	**2,971**	**1,776**
European Community	−96	−95	−212	2,619	2,472
Belgium and Luxembourg	−5	72	109	295	109
Denmark	3	8	28	13	−14
France	45	63	191	247	326
Federal Republic of Germany	47	37	11	253	191
Greece	6	–	12	−7	18
Irish Republic	34	7	80	235	102
Italy	23	30	153	120	190
Netherlands	−321	−412	−876	1,176	1,334
Portugal	11	25	26	160	42
Spain	60	75	53	127	175
European Free Trade Association	79	59	118	407	−702
Austria	–	–	26	9	18
Finland	−3	3	5	3	5
Iceland	*na*	*na*	*na*	*na*	*na*
Norway	*na*	*na*	*na*	*na*	*na*
Sweden	−3	20	16	102	−1
Switzerland	89	34	−26	78	−297
Other Western Europe	11	5	7	−55	6
North America	**1,573**	**1,789**	**3,345**	**3,560**	**7,853**
Canada	159	313	578	218	1,044
United States	1,414	1,476	2,767	3,342	6,808
Other developed countries	**506**	**697**	**829**	**839**	**916**
Australia	289	285	512	431	676
Japan	14	76	134	47	118
New Zealand	8	40	62	161	35
South Africa	194	296	120	199	86
Rest of the world	**48**	**1,005**	**1,841**	**1,465**	**1,096**
Africa	200	65	−227	115	92
Middle East	2	−29	−8	−108	125
Other Asia	−331	483	529	122	226
Caribbean, Central and South America	216	478	1,501	1,314	669
Other	−38	7	46	23	−17
World	**2,122**	**3,460**	**5,929**	**8,836**	**11,641**
Commonwealth	338	1,517	2,444	1,057	2,385
Developing countries	48	1,005	1,841	1,465	1,096
Oil-exporting countries†	119	6	−139	−155	259

*Excluding miscellaneous transactions and, for 1982-83, oil companies.
na = not available.
†Algeria, Ecuador, Gabon, Gulf States, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, Trinidad and Tobago, and Venezuela.

Table 3

Net Earnings from British Direct Investment Overseas Analysed by Area*

£ million

	1982	1983	1984	1985	1986
Western Europe	**382**	**709**	**1,564**	**2,044**	**2,130**
European Community	243	482	1,140	1,565	1,736
Belgium and Luxembourg	28	40	45	104	189
Denmark	4	15	58	52	57
France	43	23	12	62	203
Federal Republic of Germany	86	172	31	309	401
Greece	5	9	11	6	12
Irish Republic	94	57	68	159	159
Italy	36	47	69	91	128
Netherlands	−123	38	754	661	414
Portugal	17	20	33	34	34
Spain	53	62	58	87	137
European Free Trade Association	118	195	382	452	364
Austria	5	15	19	23	56
Finland	4	4	3	8	10
Iceland	–	*na*	*na*	*na*	*na*
Norway	2	*na*	*na*	*na*	*na*
Sweden	13	19	78	54	10
Switzerland	95	154	169	168	199
Other Western Europe	20	31	41	27	30
North America	**714**	**1,151**	**2,537**	**2,167**	**2,413**
Canada	164	346	388	286	378
United States	550	804	2,149	1,881	2,035
Other developed countries	**731**	**882**	**1,134**	**1,191**	**983**
Australia	254	271	565	525	500
Japan	22	30	58	158	48
New Zealand	44	54	117	146	115
South Africa	411	527	393	362	320
Rest of the world	**1,145**	**1,270**	**2,490**	**2,265**	**2,075**
Africa	262	307	418	402	330
Middle East	103	138	236	201	184
Other Asia	404	405	755	641	762
Caribbean, Central and South America	332	416	1,061	1,022	775
Other	45	4	20	–	24
World	**2,971**	**4,012**	**7,725**	**7,668**	**7,601**
Commonwealth	1,156	1,491	2,884	2,506	2,452
Developing countries	1,145	1,270	2,490	2,265	2,075
Oil-exporting countries†	213	251	468	426	366

*Excluding miscellaneous transactions and, for 1982-83, oil companies.
na = not available.
†Algeria, Ecuador, Gabon, Gulf States, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, Trinidad and Tobago, and Venezuela.

Table 4

Net Overseas Direct Investment in Britain Analysed by Area*

£ million

	1982	1983	1984	1985	1986
Western Europe	**389**	**671**	**−1,780**	**1,743**	**2,599**
European Community	171	434	−2,073	1,319	2,338
Belgium and Luxembourg	13	114	132	81	227
Denmark	28	12	34	7	59
France	21	72	319	226	216
Federal Republic of Germany	58	66	−219	51	169
Greece	–	–	*na*	*na*	*na*
Irish Republic	20	−16	*na*	6	19
Italy	6	6	32	73	76
Netherlands	20	164	−2,379	856	1,575
Portugal	2	1	*na*	*na*	*na*
Spain	2	13	−2	15	1
European Free Trade Association	217	236	286	422	258
Austria	12	−12	1	4	2
Finland	12	35	15	−7	−17
Norway	86	32	34	22	45
Sweden	42	38	40	39	34
Switzerland	65	143	196	364	194
Other Western Europe	1	1	7	2	3
North America	**360**	**1,174**	**1,449**	**2,310**	**1,258**
Canada	−12	43	−56	127	−18
United States	372	1,131	1,505	2,183	1,276
Other developed countries	**32**	**142**	**−9**	**−185**	**107**
Australia	18	−85	3	−144	82
Japan	−48	170	−6	36	15
New Zealand	−6	−5	*na*	*na*	20
South Africa	68	62	*na*	*na*	−10
Rest of the world	**356**	**76**	**94**	**254**	**114**
Asia	348	−10	−63	150	134
Caribbean, Central and South America	35	42	94	93	−19
Other	−27	45	64	12	−19
World	**1,137**	**2,063**	**−246**	**4,123**	**4,078**

*Excluding miscellaneous and, for 1982-83, oil companies.
na = not available.

Table 5

Net Outgoings from Direct Investment in Britain Analysed by Area*

£ million

	1982	1983	1984	1985	1986
Western Europe	**231**	**479**	**1,897**	**2,032**	**1,438**
European Community	155	320	1,689	1,758	1,210
Belgium and Luxembourg	36	67	44	71	90
Denmark	26	28	16	30	39
France	100	62	326	343	220
Federal Republic of Germany	20	23	133	131	−42
Greece	–	–	*na*	*na*	*na*
Irish Republic	2	12	44	49	82
Italy	−16	–	*na*	103	31
Netherlands	−16	126	1,145	1,024	799
Portugal	1	2	*na*	*na*	*na*
Spain	2	1	−5	6	−6
European Free Trade Association	74	158	206	272	223
Austria	4	2	–	3	−5
Finland	2	2	−2	6	1
Norway	−19	−6	4	−34	−33
Sweden	12	36	32	47	31
Switzerland	75	124	173	250	228
Other Western Europe	1	1	2	3	5
North America	**1,364**	**1,383**	**3,893**	**4,819**	**3,188**
Canada	41	107	256	255	279
United States	1,323	1,276	3,638	4,564	2,909
Other developed countries	**116**	**262**	**357**	**402**	**575**
Australia	42	58	45	51	124
Japan	81	187	277	327	418
New Zealand	4	6	11	4	4
South Africa	−11	11	24	21	29
Rest of the world	**369**	**184**	**123**	**204**	**124**
Asia	287	104	28	60	55
Caribbean, Central and South America	66	58	92	128	53
Other	17	22	3	16	16
World	**2,081**	**2,308**	**6,271**	**7,456**	**5,327**

*Excluding miscellaneous and, for 1982-83, oil companies.
na = not available.

Renewable Sources of Energy

The Central Electricity Generating Board (CEGB) has announced proposals to build three demonstration wind parks, each with 25 wind turbines, and the world's first offshore wind turbine. There have also been developments in the Department of Energy's Waste as Fuel programme.

Wind Energy

Speaking at the British Wind Energy Association's annual conference in London on 23 March, the Parliamentary Under-Secretary of State for Energy, Mr Michael Spicer, referred to wind power as one of the most promising of renewable energy sources (see pp 385-6, 1984; p 354, 1985; and p 35, 1987) and likely to benefit from the requirement in the electricity supply privatisation proposals (see pp 112-18) that area distribution companies should take a certain proportion of electricity not derived from fossil fuels. Great strides had been made with the development of a range of wind turbines and an expanded wind energy programme would open up commercial possibilities for the technology.

Since its inception in the early 1970s, Mr Spicer said, the Department of Energy's research and development programme on renewable energy had cost £120 million and the Government had increased the budget for 1988-89 to over £16 million (see p 119). Although studies suggested that wind energy could eventually contribute as much as 20 per cent of Britain's electricity supply once the technology had been fully developed, it had been calculated that, on the basis of current technology, 260 sq km (100 sq miles) of machines would be needed to generate 1 per cent of the country's electricity. 'It is essential therefore that we consider very carefully the environmental implications of pursuing this technology.'

Speaking at the same conference, the CEGB chairman, Lord Marshall, said that the wind park programme, which would be jointly funded by the Department of Energy and the CEGB, would cost £28 million and provide electricity for 15,000 people. Three areas – south-west England, west Wales and the northern Pennines – were being considered for possible sites. (It is the Government's hope that there will also be a wind park in Scotland.) A possible site for the 750-kilowatt (kW) horizontal axis wind turbine, costing £2 million and funded by the Department of Energy, the CEGB, the Eastern Electricity Board, the manufacturers and a European Community grant, would be some 5 km (3 miles) off the north Norfolk coast.

Each demonstration wind park would have a generating capacity of 8 megawatts (MW) and consist of 30-m-high vertical or horizontal axis turbines with 30-m-diameter blades. Each machine would have an output of 300-500 kW and an estimated operating life of 25 years, and a park would occupy some 3 to 4 sq km (1·2 to 1·5 sq miles). If it were decided to proceed with plans for full-scale wind parks, Lord Marshall continued, larger areas involving several hundred machines would be needed in the future and public reaction to noise and environmental problems would have to be taken into account.

Consultations would begin immediately with local authorities, landowners and environmental groups. While planning consent would have to be obtained, it was hoped that the parks would be built between 1990 and 1992, providing 25 MW by 1993.

Energy from Wastes

On 11 February, Mr Spicer inaugurated a boiler powered by pelletised fuel derived from the processing of municipal wastes (see pp 17 and 330-1, 1986), the first to contribute to a district heating scheme, in Newcastle upon Tyne (Tyne and Wear). The project, costing £270,000, has been jointly funded by the Department of Energy and Energy Supplies Ltd.

On 23 March, the Minister of State for Energy, Mr Peter Morrison, officially opened a project for generating 1 MW of electricity from landfill gas at Gerrards Cross (Buckinghamshire), which is expected to supply 3 MW to the national grid by the end of 1988. There are 19 commercial gas exploitation schemes in Britain, saving an estimated 120,000 tonnes of coal equivalent, and a further 14 are expected to be implemented in 1988. The project is one of 43 illustrating the use of wastes as fuel (see p 354, 1985, and p 243, 1987), eight of which show the different methods of landfill gas production and use. Britain, Mr Morrison said, 'is now recognised as one of the leaders in this technology. Already some 9 MW of electricity are being generated from landfill gas and this could ultimately rise to 100 MW. By the late 1990s . . . landfill gas for power generation will save more than 1 million tonnes of coal equivalent a year.'

The Government has invested £4 million, and will spend a further £1 million in 1988-89, in research and development in biofuels.

Shorter Notes

RESTRICTIVE TRADE PRACTICES

The Government has published a consultative document on its review of restrictive trade practices,[1] comments on which are invited by 30 September. The review was prompted by criticism of the legislation on such practices – agreements or concerted practices involving two or more firms.

The document points out that policy in Britain has long recognised that cartels – collusion between firms on matters such as prices and market shares – impose serious restrictions on competition. The White Paper *DTI – the department for Enterprise* (see p 56) highlighted the Government's commitment to effective legislation on cartels.

While existing law was effective in the 1950s and early 1960s in breaking down cartels in industry and commerce and also in the 1970s, when first applied to services, it is not well suited to present conditions. Its main weaknesses are: failure to deter the formation of damaging agreements while catching

[1]For further information, see COI reference paper *Competition Policy in Britain*, No 252/86.

agreements that do not seriously restrict competition; vulnerability to agreements that are drafted so as to evade the law; exemption of many sectors; and complexity and costliness. As for European Community competition law, the document points out that this catches agreements only insofar as they affect intra-Community trade; moreover, the Community system is already overloaded.

The Government has decided that the law should focus on the competitive effects of agreements and concerted practices – rather than their legal form – thus aligning the scope of the law with its purpose. Such a change would also bring British and Community law largely into line.

Anti-competitive agreements would be prohibited rather than merely having to be registered; the registration system would therefore be abolished.

A central feature would be that any prohibition would be a general one covering any agreement with anti-competitive effects (although some examples of prohibited agreements should be given). This would avoid the major weakness of existing law, whose coverage is regarded as too specific in terms of the form of agreements, with the result that even some highly anti-competitive agreements may escape the law. Any prohibition would be qualified by facilities for the granting of exemptions, applications for which would be judged against general criteria.

Certain sectors of the economy, including professional services, are exempted from present legislation. These exemptions would need to be reappraised.

The initial decision on whether an agreement is a prohibited one would be taken by a competition authority, which would be based on the existing Office of Fair Trading. There would be rights of appeal. However, enforcement powers and sanctions would be stronger than at present.

Source: *Review of Restrictive Trade Practices Policy*. Department of Trade and Industry. Cm 331. HMSO, £5. ISBN 0 10 103312 5.

BRITISH AEROSPACE-ROVER GROUP AGREEMENT

Conditional agreement has been reached for British Aerospace (BAe) to acquire the Government's shareholding in the Rover Group (99·8 per cent of the total). Rover is Britain's largest producer of passenger vehicles, with an annual turnover of £3,000 million, annual exports of £1,000 million, direct employment of 43,000 and indirect employment of several times that number.

Making the announcement in the House of Lords on 29 March, the Secretary of State for Trade and Industry, Lord Young of Graffham, revealed that, before entering into contract with BAe, the Government had considered a number of confidential expressions of interest but none had amounted to a specific offer. However, following BAe's declaration of a serious interest in acquiring the shareholding, the Government had granted it the right to exclusive negotiations. These had now been completed.

Important conditions had been agreed. BAe had undertaken not to relinquish control of either Austin Rover (the car producer) or Land Rover (the specialist producer of four-wheel-drive vehicles) within five years. This undertaking was supported by legal arrangements designed to ensure that there was no financial advantage in doing so.

Turning to the financial terms, Lord Young said that BAe had impressed on him the fact that Rover operated in a highly competitive industry and that, despite the recovery in 1987, its current and prospective levels of profitability were insufficient to meet the interest on debt built up as a result of many years of losses. This accumulated indebtedness had to be dealt with. Accordingly, the Government had agreed to make a cash injection of £800 million into Rover. As a result of these measures to strengthen the balance sheet, the Government had been able to agree to sell its shareholding for £150 million.

Arrangements had also been made for the effective elimination of £1,100 million of Rover's trading tax losses; only £500 million of these losses would remain to be claimed against future profits. BAe had agreed that any other tax relief available to Rover would be applicable only within the group.

The Rover board believed that the present agreement was the best possible outcome. BAe was strongly committed to the further development and growth of Rover, working with existing Rover management, which had made a great deal of progress in improving performance. Honda had informed the Secretary of State that it welcomed the continuity of management that would be assured by the transfer of ownership to BAe. He expressed the hope that the partnership between Rover and Honda (see p 106, 1987) would continue to develop satisfactorily.

Lord Young made it clear that the agreement was subject to the consent of BAe shareholders as well as investigation by the European Community. He also expected to receive the advice of the Director General of Fair Trading. The agreement should, he added, bring to a successful conclusion the initiative of privatising the company, which had begun with the flotation of Jaguar in 1984 (see p 308, 1984). Since May 1986, 18 Rover businesses had been returned to private ownership.

Commending the proposals to the House, the Secretary of State said that, in the hands of BAe, Rover would have the best available chance of developing its independent role in the vehicle industry. The link would strengthen the company's ability to compete at home and abroad.

Source: *Hansard* (*HL*), Vol 495, No 105, cols 598-600.

AIRMISSES

New procedures for reporting and investigating airmisses, including the publication of the results of investigations, were announced on 3 March by the Secretary of State for Transport, Mr Paul Channon, and the Chairman of the Civil Aviation Authority

(CAA), Mr Christopher Tugendhat. Mr Channon said that the purpose of the procedures must be to enhance flight safety by encouraging reporting of airmisses so that lessons could be learnt from each incident, and to strengthen public confidence in the air traffic control system through maximum openness and impartiality in reporting and investigating airmisses. The CAA's proposals, contained in a letter from the Chairman to the Secretary of State, would go a long way towards meeting these objectives.

An 'airmiss' occurs when a pilot considers that the aircraft may have been endangered by the proximity of another aircraft. Reported airmisses are investigated initially by the National Air Traffic Services (responsible for civil and military air traffic control over Britain) and then by the Joint Airmiss Working Group, which includes representatives from the armed services, civil airlines, pilots and other airspace users. Statistics on airmisses published by the CAA show that there has been no deterioration in air safety over Britain, and that risk-bearing airmisses involving commercial aircraft show a downward trend in recent years.

The CAA's practice has been not to confirm or deny the occurrence of an airmiss, but it has now decided that, as soon as an airmiss is known to have occurred involving an aircraft on a commercial flight, it will announce the airmiss together with any reliable information immediately available. Results of airmiss investigations are circulated widely within the aviation community, but have not been made public in order to encourage full and frank reporting of the incidents, which had been considered essential to ensure that airmisses were fully analysed and the lessons for flight safety drawn. However, the Chairman of the CAA says that the system has been undermined by the frequency with which incomplete information has been disclosed unofficially. He accepts that there is a legitimate public interest in the outcome of investigations of airmisses involving commercial aircraft in British airspace, and has therefore decided that the findings should be published, in a way that avoids jeopardising confidence in the objectivity and impartiality of the investigation system.

Source: *Hansard*, Vol 128, No 108, written answers, cols 654-6.

Smoking and Health

An independent report on the effects of tobacco smoking on health was published on 23 March. This emphasises the dangers of smoking to non-smokers as well as smokers and calls for continuing government action to dissuade people from smoking and to encourage tobacco companies to produce less harmful tobacco products. In a separate review, published at the same time, the chairman of a joint government-tobacco industry committee concludes that while the voluntary agreements regulating tobacco advertising and sports sponsorship are generally working satisfactorily, certain aspects of the agreements will need to be strengthened, including the provisions for advertising on shop fronts.

Fourth Report of the Independent Scientific Committee on Smoking and Health

The report[1] was prepared by an independent government-appointed committee under the chairmanship of Sir Peter Froggatt. Its chief recommendation is that the Government should consider all available means to persuade smokers to give up the habit and non-smokers not to start.

Product Modification

The Committee examined the progress of the tobacco product modification policy, which was introduced in the 1970s to promote the development of less harmful tobacco products for people unable or unwilling to stop smoking. The policy, together with the welcome fall in the proportion of people who smoke, has contributed to the more favourable trends developing in certain smoking-related diseases, most notably lung cancer; the Committee recommends that action should be taken to reduce further the amounts of the main carcinogenic and other health-threatening components of cigarettes.

The average tar yield of cigarettes on sale in Britain[2] should be not more than 13 milligrammes per cigarette by the end of 1988 (compared with over 20 milligrammes in 1973) and not more than 12 milligrammes by the end of 1991; the tar yields of new brands should be subject to a ceiling of 14·5 milligrammes. An upper limit of 16 milligrammes of tar ought to be introduced as soon as possible for all existing brands on sale, reducing to 15 milligrammes after two years and becoming 14 milligrammes for all brands after four years.

Average nicotine yields should also be brought down, and manufacturers should take steps to lower carbon monoxide yields of all brands while the yields of new brands should have a ceiling of 15·7 milligrammes per cigarette. The report adds that the Government and the tobacco industry ought to consider further action to persuade smokers to favour low tar brands.

Environmental Tobacco Smoke

The Committee studied the possible health implications of breathing environmental tobacco smoke (other people's tobacco smoke), sometimes referred to as passive smoking: evidence points to there being an increase of 10 to 30 per cent in the risk to non-smokers of contracting lung cancer from passive smoking, which could account for several hundred of the current annual total of 40,000 deaths from lung cancer in Britain. It says that attention should continue to be given to the investigation of the role of environmental tobacco smoke in the occurrence of respiratory illnesses in children and adults. The tobacco companies should pursue research into methods of reducing the amount and irritancy and other harmful effects of sidestream smoke, that is smoke emitted from cigarettes and other tobacco products into the air. Consideration should be given to ensuring that smokers can be segregated from non-smokers in work and leisure places, public transport and other public enclosed spaces.

Effects of Tobacco Smoke on the Foetus

The report draws attention to the link between tobacco smoking by expectant mothers and low birthweight and perinatal mortality in babies and to the need for pregnant women to avoid exposure to other people's tobacco smoke.

Government View

In a statement to the House of Commons on 23 March (*Hansard*, Vol 130, No 122, written answers, cols 158-9), the Parliamentary Under-Secretary of State at the Department of Health and Social Security, Mrs Edwina Currie, said that the Govern-

[1]Available from HMSO, £5·70. ISBN 0 11 321131 7.

[2]As tar is regarded as a greater threat to health than nicotine or carbon monoxide, cigarette brands are listed in tar yield order. Brands are placed in tar groups that are printed on cigarette packets and advertisements. The tar groups are Low Tar (less than 10 milligrammes), Low to Middle Tar (10 but less than 15 milligrammes), Middle Tar (15 but less than 18 milligrammes) and High Tar (18 milligrammes and above). Nicotine yields range from about 0·3 to 2·5 milligrammes and carbon monoxide yields from less than 3 to about 18 milligrammes.

ment accepted the principal recommendations of the report which were already reflected in the established policies of the two voluntary agreements on tobacco advertising and sports sponsorship (see below). It would be determining how best to implement the recommendations, action on some of which could be taken relatively quickly; the implementation of others would require prior discussion with interested parties, including the tobacco industry.

First Report of the Committee for Monitoring Agreements on Tobacco Advertising and Sponsorship

The report,[1] undertaken by a committee representing the Government and the tobacco industry, says that the two voluntary agreements concluded by the Government and organisations representing the tobacco industry, which regulate tobacco advertising and health warnings as well as sports sponsorship (see pp 131-2, 1986, and pp 77-8, 1987), are generally working well and that the tobacco firms are honouring their commitments. Nevertheless, the chairman of the Committee, Sir Peter Lazarus, points to some areas where the agreements are inadequate, and which will need to be taken into account when negotiating future agreements. For instance, permanent advertising on retail outlets, put in place before the enactment of the present agreement on tobacco advertising and not complying with current regulations because it does not incorporate a health warning, should be replaced by the end of 1989 rather than by the end of 1992 as envisaged by the tobacco companies.

Government View

Announcing the publication of the report in the House of Commons on 23 March (*Hansard*, Vol 130, No 122, written answers, cols 157-8), Mrs Currie endorsed the Committee's findings. She said that the Government remained concerned about the impact of cigarette advertising, particularly on children and young women (a significant number of schoolchildren have been found to be regular smokers in a recent survey, and women appear to be giving up smoking at a slower rate than men). The present agreement on advertising expired in October 1989 and the Government would open negotiations with the tobacco industry as soon as possible in order to secure a new agreement that reflected present-day needs.

[A general outline of the Government's policies on smoking and health is given in COI reference paper *Smoking and Health in Britain*, No 197/87.]

Urban Policy in Scotland

The Government has announced a number of new initiatives for urban renewal in Scotland, and a proposal for a further Enterprise Zone.

[1]Available from HMSO, £3·10. ISBN 0 11 321138 4.

Details of the initiatives were given by the Secretary of State for Scotland, Mr Malcolm Rifkind, in a statement to the House of Commons on 29 March (*Hansard*, Vol 130, No 125, cols 902-3). A document[1] explaining the policies was published, discussing the lessons of past experience and setting out a range of urban policy objectives to tackle social, economic, housing and environmental problems.

Mr Rifkind said that much had been done to revive the urban areas of Scotland since the 1970s, particularly through the Glasgow Eastern Area Renewal scheme and in Leith and Dundee. In the 1980s, however, it was the people living in the large peripheral estates who were suffering most from social and economic deprivation. In drawing up its proposals, the Government had examined the lessons of recent experience; future action would be based on the principles of helping residents to take more responsibility for their communities, of full involvement of the private sector and of partnership between different public bodies and the private sector.

Mr Rifkind stressed the importance of renewing the self-confidence and initiative of local people through, for example, their involvement in training opportunities, tenant co-operatives, housing associations, school boards, small businesses and self-employment. He hoped that the private sector would examine with enthusiasm the scope for investment in areas currently neglected.

The Government would be spending some £500 million on urban regeneration in Scotland in 1988-89, over and above local authority spending, the Secretary of State said. The Scottish Development Agency (SDA) had urban renewal as a major priority in its corporate plan for the next few years, and Scottish Homes (see pp 431-2, 1987, and 77-8) was soon to be created as an important housing agency, working alongside the SDA in pursuing urban regeneration. It would build on the expertise of the Housing Corporation and the Scottish Special Housing Association, which between them spent over £125 million a year on urban renewal. Urban Programme funding would be increased by £6·4 million to £44 million in 1988-89, and the Manpower Services Commission (MSC) would be spending some £250 million in urban areas. Enterprise was being encouraged through a wide network of enterprise trusts, the Enterprise Allowance Scheme, training and the new range of regional assistance (see pp 381, 1987, and 53-62). Policies on health and social services, crime, education and training provided special support to areas of urban deprivation.

New initiatives announced by Mr Rifkind are:

1 The Government has approved 225 Urban Programme projects, worth £8·9 million.

2 The Housing Corporation will earmark £25 million in 1988-89 for new housing-related urban regeneration initiatives.

3 Extra housing capital allocations totalling £77 million have been made to district and islands councils.

4 Four major new initiatives to tackle the econ-

[1]*New Life for Urban Scotland.* Available, unpriced, from the Industry Department for Scotland, Room 6/101, New St Andrew's House, Edinburgh EH1 3TA.

omic, environmental, housing and social problems of peripheral estates will be established in Glasgow, Paisley, Edinburgh and Dundee, subject to consultation with the local authorities and other bodies concerned. The Scottish Office will initiate the development of partnerships to take these initiatives forward, involving the local community, the Government, the SDA, Scottish Homes, the local authorities, the private sector, the health boards, the MSC and other public bodies. Pilot initiatives on a smaller scale are already being developed by the SDA, with local authorities, the Housing Corporation and the private sector, in peripheral estates in Easterhouse (Glasgow), Motherwell and Perth.

Enterprise Zone

The Government's decision to designate an Enterprise Zone in Inverclyde was announced by the Prime Minister, Mrs Margaret Thatcher, on 30 March. Although an urban regeneration initiative has made good progress over the past three years, the area continues to be affected by the decline in the shipbuilding and marine engineering industries. The Enterprise Zone in Inverclyde will cover about 100 hectares (260 acres) of mainly derelict industrial land in Greenock and Port Glasgow. It is estimated that the designation of the zone will create about 3,200 additional local jobs and provide a considerable stimulus to the local economy and environment. It will be the fourth Enterprise Zone in Scotland and brings the number in Britain to 26. The aim of the Enterprise Zone policy is to stimulate industrial and commercial activity by the removal of certain tax burdens and by relaxing or speeding up the application of a number of administrative controls.

DOCUMENTATION

General

Northern Ireland: A Brief Survey. Prepared for the Foreign and Commonwealth Office and the Northern Ireland Office by the Central Office of Information. Unpriced.

Government and Administration

Parliamentary Commissioner for Administration: Annual Report for 1987. HC 363. HMSO, £4·50. ISBN 0 10 236388 9.

Control of Immigration: Statistics – Fourth Quarter and Year 1987 (Home Office Statistical Bulletin No 5/88). Available from Statistical Department, Home Office, Lunar House, Croydon, Surrey CR0 9YD. £2·50.

Economic and Scientific Affairs

Britain's Budget 1988. (Reproduced from *Survey of Current Affairs.*) COI, No 241/88.

Financial Statement and Budget Report 1988-89 (see p 135). HM Treasury. HMSO, £7·20. ISBN 0 10 236188 6.

Supply Estimates 1988-89: Summary and Guide. HM Treasury. Cm 328. HMSO, £7·50. ISBN 0 10 103282 X.

Britain's Financial Services: Regulatory Reform. COI, No 307/88.

Training for Employment: Britain's New Programme. (Reproduced from *Survey of Current Affairs.*) COI, No 308/88.

Agricultural and Food Research Council. Annual Report 1986-87. Available from the AFRC, 160 Great Portland Street, London W1N 6DT. £6. ISBN 0 7084 0466 9.

Privatisation of the Electricity Supply Industry. (Reproduced from *Survey of Current Affairs.*) COI, No 309/88.

Protecting your Environment – A Guide. Following the end of the European Year of the Environment (EYE), this booklet sets out the Government's policy for a cleaner and safer Britain with a seven-point Environment Charter. It also explains who is responsible for environmental protection and deals in particular with the three themes of EYE – control of pollution, nature conservation and urban regeneration. Available unpriced from the Department of the Environment, 2 Marsham Street, London SW1P 3EB.

Digest of Environmental Protection and Water Statistics No 10. Department of the Environment. HMSO, £8. ISBN 0 11 752082 9.

Monitoring of Radioactivity in the UK Environment. HM Inspectorate of Pollution. Department of the Environment. HMSO, £5·80. ISBN 0 11 752066 7.

Social and Cultural Affairs

Sixth Report of the Social Security Advisory Committee, 1988. A report by the Government's major independent advisory body on social security. HMSO, £5·50. ISBN 0 11 761503 X.

Community Care: Agenda for Action. A report to the Secretary of State for Social Services by Sir Roy Griffiths. HMSO, £3·90. ISBN 0 11 321130 9.

Smoking and Health in Britain. COI, No 197/87.

Fourth Report of the Independent Scientific Committee on Smoking and Health (see p 149). HMSO, £5·70. ISBN 0 11 321131 7.

First Report of the Committee for Monitoring Agreements on Tobacco Advertising and Sponsorship (see p 150). HMSO, £3·10. ISBN 0 11 321138 4.

AIDS and Drug Misuse Part One: Report by the Advisory Council on the Misuse of Drugs. The first report on AIDS by the ACMD is concerned with measures to prevent the spread of infection. The Government accepts the ACMD's recommendation that drug misuse services should be developed in order to make contact with those at risk of acquiring the AIDS virus through their sharing of drug injecting equipment, and while it does not yet consider that it has sufficient evidence to recommend an

expansion of syringe-exchange schemes in England, it will make guidance available based on the principles underlying the pilot schemes to enable local agencies to set up their own schemes should they decide to do so. HMSO, £6·20. ISBN 0 11 321134 1.

The General Certificate of Secondary Education: An Interim Report on the Introduction of the New Examination in England and Wales. HMI Report No 129881. Available free from Publications Despatch Centre, Department of Education and Science, Honeypot Lane, Canons Park, Stanmore, Middlesex HA7 1AZ.

Education in Northern Ireland – Proposals for Reform. Department of Education for Northern Ireland. Outlines the Government's plans for raising educational standards in Northern Ireland; the proposals are comparable with those introduced for England and Wales in the Education Reform Bill (see pp 426-8, 1987). Available free of charge from the Department of Education, Rathgael House, Balloo Road, Bangor, Co Down BT19 2PR, Northern Ireland.

Education Statistics for the United Kingdom: 1987 Edition. HMSO, £7·95. ISBN 0 11 270641 X.

Equal Opportunities in Local Authorities: Developing Effective Strategies for the Implementation of Policies for Women by Isabella Stone. HMSO, £9·40. ISBN 0 11 701372 2.

Local Authority Equal Opportunities Policies: Report of a Survey by the Equal Opportunities Commission. Available free from the Publications Section, EOC, Overseas House, Quay Street, Manchester M3 3HN.

New Life for Urban Scotland (see p 150). Available unpriced from the Industry Department for Scotland, Room 6/101, New St Andrew's House, Edinburgh EH1 3TA.

An Evaluation of the Urban Development Grant Programme. This report, published on behalf of the Department of the Environment by the Public Sector Management Research Unit of Aston University, finds that substantial investment has been attracted into inner city areas by the Government's Urban Development Grants, which have made a significant impact on employment and the environment. HMSO, £13. ISBN 0 11 751940 5.

Task Force Trees: Action Pack. Task Force Trees was set up by the Countryside Commission after the great storm of October 1987 (see p 415, 1987, and pp 25 and 68), with a projected life of six months. Its aim is to advise on making good the damage caused to trees and woodlands, in towns and in the countryside, and to lay the foundation for a ten-year recovery programme. The pack is divided into six sections: a detailed account of the storm; advice on how to save damaged trees and how to sell and process timber; an analysis of how trees interact with the wider environment; advice on the selection, planting and care of new trees; advice on how the individual can help in the replanting programme; and two wall charts combined on one sheet giving information on 78 tree species. Available free from Countryside Commission Publications, PO Box 7, Manchester M19 2HD. ISBN 0 86170 202 6.

Association for Business Sponsorship of the Arts Annual Report 1986-87. Available from the ABSA, 2 Chester Street, London SW1X 7BB. £2.

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